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FY 2000 U.S. ARMY CORPS OF ENGINEERS OBLIGATIONS
FOR DOD COMPONENT CONTRACTS

Report No. D-2001-185

September 21, 2001

Office of the Inspector General
Department of Defense

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Acronyms

CEFMS	Corps of Engineers Financial Management System
CFO	Chief Financial Officers
COEMIS	Corps of Engineers Management Information System
Corps of Engineers	U.S. Army Corps of Engineers
FAD	Funding Authorization Document
MIPR	Military Interdepartmental Purchase Request
PBAS	Programming, Budgeting, and Accounting System
S&A	Supervision and Administration



INSPECTOR GENERAL
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September 21, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
COMMANDER AND CHIEF OF ENGINEERS, U.S.
ARMY CORPS OF ENGINEERS

SUBJECT: Audit Report on FY 2000 U.S. Army Corps of Engineers Obligations for
DoD Component Contracts (Report No. D-2001-185)

We are providing this report for review and comment. We conducted the audit in response to a request from the Air Force Audit Agency. We considered management comments on a draft of this report when preparing the final report.

The Commander and Chief of Engineers, U. S. Army Corps of Engineers, comments were fully responsive to Recommendations a. and b. and not responsive to Recommendation c. We request additional comments on Recommendation c. DoD Directive 7650.3 requires that all recommendations or unresolved issues be resolved promptly. Therefore, we request that management provide comments by November 21, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Richard B. Bird at (703) 604-9102 (DSN 664-9102) (rbird@dodig.osd.mil) or Ms. Addie M. Beima at (703) 604-8912 (DSN 664-8912) (abeima@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are inside the back cover.

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Office of the Inspector General, DoD

Report No. D-2001-185

(Project No. D2001FI-0024)

September 21, 2001

FY 2000 U.S. Army Corps of Engineers Obligations for DoD Component Contracts

Executive Summary

Introduction. We conducted this audit of the U.S. Army Corps of Engineers (Corps of Engineers) obligation and disbursement of Air Force funds in response to a request from the Air Force Audit Agency. The results were used by the Air Force Audit Agency to support its FY 2000 financial statement audit. Each year the Corps of Engineers receives program authority to manage the design and construction of Air Force buildings and structures. The Air Force does not have transaction-level visibility of the Corps of Engineers use of those funds. The Corps of Engineers provides the Air Force with project-level information both monthly and at year's end for annual financial report preparation. For FY 1991 through FY 2000, the Corps of Engineers reported \$8.1 billion in Air Force obligations. As of September 30, 2000, the Corps of Engineers reported that \$854.6 million (23 districts) of those Air Force obligations were unliquidated. We statistically sampled and reviewed 295 of the Air Force unliquidated obligations valued at \$668.6 million at 12 of the 23 Corps of Engineers districts. To verify the accuracy of the \$668.6 million of unliquidated obligations, we validated \$1.1 billion of obligations and the related \$417.6 million of disbursements.

Objectives. The objective of this audit was to determine whether the Corps of Engineers obligations and related disbursements of DoD Component funds, specifically Air Force, were properly approved, supported, and validated. We did not review the Corps of Engineers management control program because the Army Audit Agency reviewed management controls during the audit of the "FY 2000 Financial Statements: U.S. Army Corps of Engineers, Civil Works."

Results. Air Force obligations we reviewed with the Corps of Engineers were generally valid. Our focused review of unliquidated obligations for FY 1998 through FY 2000, constituted 99 percent of the Corps of Engineers available Air Force resources. The review showed that 96 percent of the obligations and 95 percent of the disbursements reviewed were supported by source documentation. However, the Corps of Engineers did not always maintain required audit trails to support triannual reviews and obligations were overstated by \$991,942.

Summary of Recommendations. We recommend that the Commander and Chief of Engineers, U.S. Army Corps of Engineers, ensure that:

- required support for triannual reviews is maintained,
- identified errors in the New York District are corrected,
- supervision and administration rate is applied consistently in the Fort Worth and Mobile districts.

Management Comments. The Commander and Chief of Engineers, U. S. Army Corps of Engineers, concurred with recommendations to maintain documentation supporting triannual reviews and to discontinue obligating supervision and administration for contract contingencies. The Commander and Chief of Engineers, U. S. Army Corps of Engineers, nonconcurred with the recommendation to correct the errors identified in the New York District, stating that the issue is still under review. See the Management Comments section for complete text of management comments.

Audit Response. The Commander and Chief of Engineers, U. S. Army Corps of Engineers, comments were fully responsive to the recommendations to maintain documentation supporting triannual reviews and to discontinue obligating supervision and administration for contract contingencies. The comments to the recommendation to correct the errors identified in the New York District were not responsive. The auditors provided copies of workpapers supporting the \$918,124 invalid charge to the New York District Internal Review Office on July 26, 2001. Management comments provided no additional information; therefore, recommendation remains unchanged. We request that management respond to this recommendation in their comments to the final report by November 21, 2001.

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Background

This report provides the results of the audit of unliquidated Air Force obligations maintained and accounted for by the U.S. Army Corps of Engineers (Corps of Engineers). Each year, Congress appropriates the funds for approved projects to various Military Departments and Defense agencies for which the Corps of Engineers will provide design, construction, and administration services. The Corps of Engineers execute the funding authority and provide the respective Military Department or Defense agency information on the status of those funds (for financial reporting purposes). The Military Departments and Defense agencies do not have transaction level visibility of the Corps of Engineers use of those funds. The Air Force allocated \$8.2 billion to the Corps of Engineers from FY 1991 through FY 2000 for the accomplishment of military construction projects (Appendix C). Of the \$8.2 billion allocated, the Corps of Engineers reported \$854.6 million of unliquidated obligations at 23 districts as of September 30, 2000.

Chief Financial Officers Act. This audit was performed in response to a request from the Air Force Audit Agency. The Air Force Audit Agency requested the audit in accordance with Public Law 101-576, the “Chief Financial Officers (CFO) Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994, which requires Federal agencies to prepare and submit audited annual financial statements. Information contained in this report was presented to the Air Force Audit Agency to support its FY 2000 financial statement audit. The Corps of Engineers began developing the Corps of Engineers Financial Management System (CEFMS) in 1988 as part of its Information System Modernization Program. From 1993 through 1998, the Corps of Engineers converted its financial management from the Corps of Engineer Management Information System (COEMIS) to CEFMS. The Corps of Engineers continues to improve CEFMS and is incorporating the requirements of the CFO Act in those improvements.

CEFMS General and Application Controls. General Accounting Office, Report No. GAO-01-89, “Financial Management: Significant Weaknesses in Corps of Engineers Computer Controls,” October 2000, made 93 recommendations to improve controls over the system. The audit identified system weaknesses related to access controls, application software development and control, systems software, segregation of duties, and application controls. Corps of Engineers management indicated nonconcurrence with 13 recommendations and was in the process of addressing the remaining recommendations. The General Accounting Office was conducting a followup audit to review corrective actions taken by the Corps of Engineers. Although the weaknesses identified the potential for financial data manipulation and precluded reliance on internal controls, auditors found no instances where data were actually manipulated or were not reliable.

Appropriated Funds. Funds appropriated to the Corps of Engineers for the completion of Air Force construction projects may be disbursed for 10 years after appropriation. Original appropriations are available for obligation for

5 years. Although the appropriated funds expire after 5 years, the Corps of Engineers may use expired funds for an additional 5 years to cover:

- contract adjustments,
- claims, and
- miscellaneous disbursements made against original obligations

The Corps of Engineers cannot use expired funds for new obligations. The Corps of Engineers manages the appropriated funds and provides monthly status reports to the Air Force. The Air Force reports the status of those funds in its annual financial statements.

Triannual Review of Obligations. The DoD Financial Management Regulation, volume 3, chapter 8, “Standards for Recording and Reviewing Commitments and Obligations,” November 2000, requires that DoD accounting activities review all unliquidated obligations on a triannual basis to ensure validity. Obligations that are found to be invalid or unsupported should be canceled. To accomplish the review, the Corps must maintain documentation to confirm that all obligations recorded in the system have been validated to source documents. The Corps of Engineers must also confirm that all obligations that could not be substantiated or validated after a thorough review by the funds holder have been deobligated. Further, the review must include dormant obligations (obligations that have not had a transaction posted against them for a period of time).

Objective

The objective of this audit was to determine whether the Corps of Engineers obligations and related disbursements for DoD Component funds, specifically, Air Force, were properly approved, supported, and valid. We did not review the Corps of Engineers management control program because the Army Audit Agency reviewed management controls during the audit of the “FY 2000 Financial Statements: U.S. Army Corps of Engineers, Civil Works,” AA 01-187, February 14, 2001. See Appendix A for a discussion of the audit process.

U.S. Army Corps of Engineers Financial Transactions

Air Force obligations we reviewed with the Corps were generally valid. Our review of unliquidated obligations from FY 1998 through FY 2000, constituted 99 percent of the Corps' available Air Force resources. The review showed that 96 percent¹ of the obligations and 95 percent of disbursements reviewed for that period were supported by source documentation. However, our review of unliquidated obligations from FY 1991 through FY 1997 showed that 74 percent of the obligations and 62 percent of the disbursements for that period were supported by source documentation. In addition, the Corps did not always maintain required audit trails to support triannual reviews and obligations were overstated by approximately \$991,942. The conditions occurred because:

- some Corps districts did not always comply with DoD Financial Management Regulations documentation retention requirements for triannual reviews,
- Corps district, New York, cited the incorrect obligation when paying for work accomplished under a Military Interdepartmental Purchase Request, and
- Corps districts, Fort Worth and Mobile, did not consistently apply the supervision and administration rate.

The Corps of Engineers' ability to support the unliquidated Air Force obligations for the most recent 3 years led us to believe that validity of the older unliquidated obligations could also be relied upon.

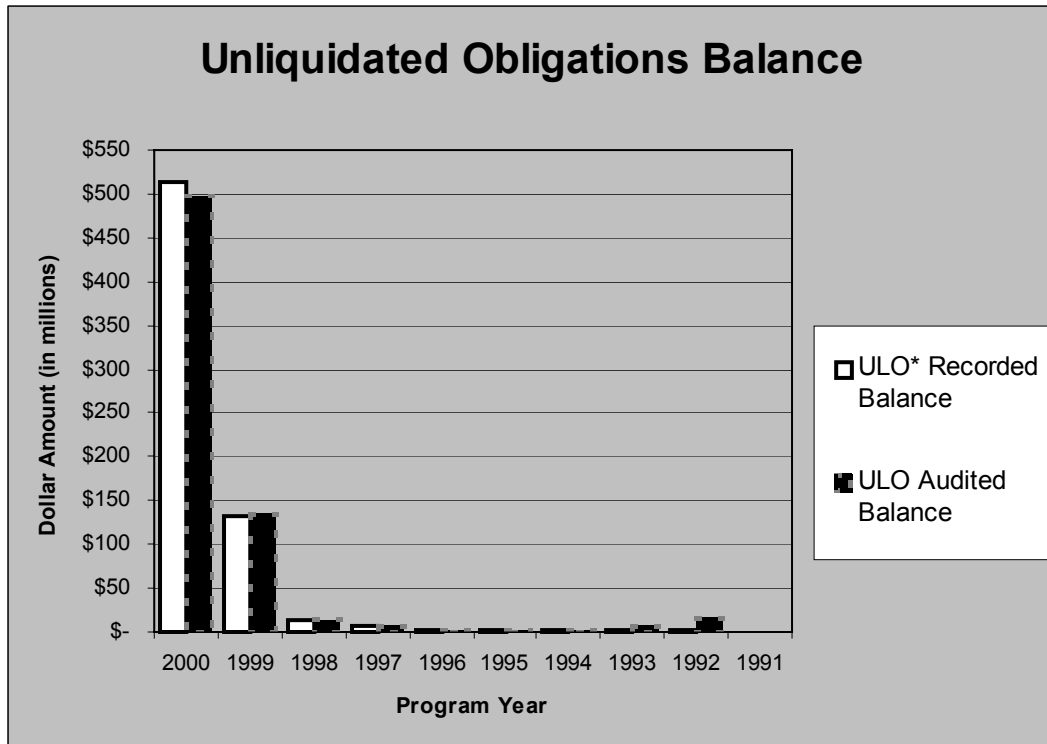
Validation of Unliquidated Obligations

We statistically selected for review \$668.6 million (of \$854.6 million) unliquidated Air Force obligations reported by the Corps of Engineers in FY 2000. The sample consisted of 295 funding authorization documents. The sample spanned the 10-year period from FY 1991 through FY 2000 at 12 Corps of Engineers Districts. See Appendix A for the sample design. The Secretary of Defense is required by DoD Regulation 7000.14-R, the DoD Financial Management Regulation, volume 3, chapter 10, "Accounting Requirements for Expired and Closed Accounts," dated November 2000, to report on unliquidated obligations for the most recent 10 years that funds are available for expenditure. We issued two data calls, which covered the 10-year period under review, to the Corps of Engineers. We received documentation to support 92 percent of the sampled obligations and 79 percent of the related disbursements incurred for the requested period. Due to financial reporting constraints, the Corps did not have

¹Judgement sample percentage does not generalize to universe.

time to obtain documentation from remote locations to support the remaining unliquidated obligations.

Analysis of the documentation received revealed that \$661.9 million (99 percent), of the \$668.4 million of unliquidated obligations were incurred from FY 1998 through FY 2000, as shown in the following graph.



*Unliquidated Obligations

Consequently, we focused on the information provided for those 3 years. The \$661.9 million of unliquidated obligations were the result of \$873.3 million of obligations and \$211.4 million of disbursements. The Corps of Engineers provided adequate documentation to support \$842.1 million (96 percent) of the obligations and \$200.3 million (95 percent) of the disbursements.

Obligating Authority. Approximately \$8.2 billion of obligating authority was accurate, timely, and appropriately recorded in the Corps of Engineers accounting records. To determine this, we obtained and reviewed:

- Air Force Budget Authorization/Allocation or Operating Budget Authority (Form 401),
- Programming, Budgeting, and Accounting System (PBAS) Status of Air Force Detail Program Distribution reports, and
- Corps of Engineers funding authorization documents (FADs).

The FADs were generated in PBAS by Corps of Engineers Headquarters in response to funding allocations received from the Air Force on Form 401. The FADs were electronically transmitted to the respective Corps districts. We compared the amounts in PBAS, on the FADs, and the audit universe with the Air Force Form 401 in effect on September 30, 2000. We determined that funding authority was fairly presented in Corps of Engineers financial records.

Unliquidated Obligations. Unliquidated obligations for Air Force funds generally resulted from obligations and disbursements for:

- construction contracts,
- Military Interdepartmental Purchase Requests (MIPRs),
- supervision and administration (S&A),
- labor, and
- in-house charges.

As shown in the following table:

Breakout of Obligations and Disbursements				
FY 1998 - FY 2000				
Transaction Type	Obligations (millions)	Percent of Sample Value	Disbursements (millions)	Percent of Sample Value
Contracts	\$786.8	90.09	\$187.3	88.60
MIPRs	10.9	1.24	.4	.20
S&A	42.8	4.90	11.0	5.18
Labor	.5	.17	1.5	.72
In-house	.1	.01	.1	.06
Total Supported	\$842.1	96.41	\$200.3	94.76
Unsupported	\$ 31.2	3.59	\$ 11.1	5.24
Sample value	\$873.3	100	\$211.4	100

CEFMS is a paperless, electronic commerce financial management system; therefore, source documents for some obligations and disbursements were not readily available. In those instances, we relied upon prior audit work and nonfinancial documentation to validate obligations and disbursements.

Construction Contracts. Approximately \$786.8 million of unliquidated obligations associated with construction contracts from FY 1998 through FY 2000 were valid. In addition, approximately \$187.3 million of related disbursements were generally valid. We obtained and reviewed contracts, payment estimates (Engineering Form 93s), and vendor invoices to support obligations and disbursements incurred by the Corps of Engineers. Contracts were signed by contracting officers and contractor representatives, and identified the amount of the original obligation. Modifications to contracts contained similar signatures and identified increases or decreases in contract values. Payment estimates were third-party authenticated summaries of cumulative obligations, payments, contract holdbacks, earnings to date, and current payment data. The contracting officers usually signed the payment estimates. The contractor representatives usually signed the final-payment estimate and interim applications for payment. The documents could be used to validate obligations and disbursements. We obtained and used prompt-payment act certificates, signed by the contractors when the contractor did sign payment estimates. Contractor invoices were available as a part of the prompt payment certificate and were used to support disbursements. Construction contract obligations and disbursements were complete and recorded in the proper period. Obligations and disbursements associated with construction contracts were generally stated correctly in accounting records and financial statements. However, the Fort Worth district issued a duplicate payment of \$40,428 in FY 2000. The payment was corrected in FY 2001 by reducing the amount of a subsequent payment. As a result, the unliquidated obligations balance was understated by \$40,428 in the Corps of Engineers accounting records on September 30, 2000.

Military Interdepartmental Purchase Requests. Except for one error identified in the New York district, approximately \$10.9 million of unliquidated obligations associated with MIPRs between FY 1998 and FY 2000 were generally valid. In addition, \$400,000 of related disbursements were valid. MIPRs were electronically processed and used to document contractual agreements among Corps of Engineers districts or among the Corps of Engineers and other Government entities.

We identified one error in the New York district. The error occurred when the Corps of Engineers cited an incorrect obligation and appropriation for a \$918,124 disbursement. The disbursement should have been paid from the FY 1997 Military Construction appropriation. However, Corps of Engineers records indicate that the disbursement did not cite the correct obligation. The error had not been corrected because Corps of Engineers officials could not determine which obligation or appropriation the disbursement had been paid from. As a result, the Corps of Engineers overstated Air Force unliquidated obligations for the Military Construction appropriation by \$918,124 in FY 2000. DoD Regulation 7000.14-R requires that the New York District maintain documentation to support that they have completed the triannual reviews of unliquidated obligations. Corps of Engineers said they completed triannual reviews; however, properly executed triannual reviews would have identified the error and verified that it was corrected timely to avoid misstating year-end accounting records used for financial statement reporting. In addition, management controls were not adequate to verify that District officials maintained documentation to support their accomplishment of triannual reviews.

Supervision and Administration. Approximately \$42.8 million of S&A charges associated with unliquidated obligations incurred from FY 1998 through FY 2000 were generally valid. In addition, \$11.0 million of related disbursements were valid. However, S&A charges were not being consistently applied across Corps of Engineers. S&A consisted of labor, travel, in-house costs, and small contracts required for administering projects. The S&A rate was derived by Corps of Engineers Headquarters, Resource Management Office, and agreed to by the Under Secretary of Defense (Comptroller) for use DoD-wide. The rate was based on the average cost throughout the Corps of Engineers to administer a contract. The Corps of Engineers applied the agreed upon rate to each contract to cover S&A costs. At the time the audit was conducted, the S&A rate for all contracts within the continental United States and Korea was 5.7 percent and 6.5 percent of the contract costs, respectively. Prior to October 1995, the continental United States S&A rate was 6.0 percent.

The S&A rate should have been calculated and charged to the projects as a percent of contractual agreements. We tested S&A rates to determine whether they were equal to or less than the percentage in effect for the U.S. and Korea for the period under review. Management controls were not adequate to ensure that at least two of the districts properly applied S&A charges. The Fort Worth and Mobile Districts calculated and charged S&A on contingency items for some contracts. The Air Force identified contingencies for contract modifications in notifications to Congress. Therefore, funding for the contract contingency was not obligated at the time of the initial contract. Nevertheless, the two districts obligated S&A charges as a result of the contingency amounts for contractual obligations that did not exist at the time the S&A was obligated. As a result, unliquidated obligations were overstated by \$114,246.

Labor. We obtained detailed cost ledgers and labor cost distribution reports. We randomly selected 49 time and attendance logs and compared the number of hours charged on the logs with the number of hours charged to the sample items in CEFMS. There were no misstatements in accounting records for the labor charges we reviewed. Additionally, we relied upon prior audit work performed by the Inspector General, DoD, and Army Audit Agency as discussed below, which supported the reliability of \$1.5 million of labor cost distribution.

In-House Costs. We relied on a judgmental sample to determine the validity of approximately \$100,000 of in-house costs. The Corps of Engineers districts used Corps of Engineers and General Services Administration vehicle services from the Logistics Management Office. We randomly selected in-house vehicle charges and compared the amount charged to the sample item on the cost distribution report with the amount charged to the sample item in CEFMS. All of the charges we reviewed were valid and accurately reflected in accounting records. The Corps of Engineers in-house charges also included printing, audio-visual production and electronic data services provided by Information Management Offices, as well as computer aided design services provided by Engineering Divisions. The cost of those services were allocated to the technical departments as a predetermined overhead rate and properly distributed to projects including the Air Force projects. Overhead rates were established at the district level and derived from the cost of operations, which according to 10 United States Code 2802, must be borne by the projects.

Reliance on Prior Audit Work. We relied upon prior audit work to validate Air Force obligations and disbursements. During their audit for the “FY 2000 Financial Statements: U.S. Army Corps of Engineers, Civil Works,” the Army Audit Agency tested internal controls over Corps of Engineers payroll processes. The tests determined that controls over time and attendance, and personnel functions were effective. We based our reliance on this work in accordance with accepted auditing standards. Further, the Inspector General, DoD, also performed annual audits of Superfund obligations and disbursements managed by the Corps of Engineers. The FY 1999 audit determined that Superfund financial transactions were 99.8 percent accurate for FY 1998 and 99.9 percent accurate in FY 1999. The audit concluded that the small number of discrepancies did not indicate a systemic control weakness. Also, the discrepancies did not materially affect the conclusions that the Corps of Engineers properly administered its portion of the Superfund. In addition, the audit revealed that management controls reviewed were effective and identified no material weaknesses. We relied upon this work to validate labor charges associated with Air Force obligations managed by the Corps of Engineers.

Zero Balance Sample Items. Zero balances we reviewed were generally valid. Of the 295 sample items, 130 had zero balances. Although the zero balances had no effect on the financial statements, we included them in our review to determine whether they were valid. The zero balance sample items remain in the database in accordance with DoD Regulation 7000.14-R. Our review of zero balances produced results similar to our review of non-zero balances. The Corps of Engineers was generally able to provide documentation to support obligations and disbursements incurred from FY 1998 through FY 2000. For obligations and disbursements incurred from FY 1991 through FY 1997, the Corps of Engineers did not always provide support documentation for zero balances because the projects had been closed out and supporting documents had been sent to storage facilities. Two Districts, Tulsa and Mobile, did not provide support for the zero balance sample items. In contrast, the Omaha District provided 100 percent support for 14 of their 15 zero balance sample items.

Document Retention

The Corps of Engineers did not provide documentation to fully support the sample obligations and disbursements. The National Archives and Records Administration, General Records Schedule 3, requires that contract files be maintained for 6 years and 3 months after final payment. Corps of Engineers policy is to retire contract files to records holding areas 3 years after final payment. Contract files were to be retained in records holding areas for the remainder of the 6 years and 3 months. In addition, DoD Regulation 7000.14-R requires fund holders to maintain sufficient documentation to permit independent organizations to verify that the reviews were accomplished as required. The documentation should be maintained for a period of 24 months following the completion of the triannual reviews. Of the twelve districts reviewed, all reported that they performed triannual reviews, but only two districts provided documentation to support them. Documentation should have been available at all locations, for all sampled items, as required to support the triannual review verification process. The Corps of Engineers District offices informed us that the files were maintained for the required period of time. Those files were often

maintained in remote locations and not readily accessible. We therefore question whether verification procedures at some Corps locations were adequate to meet DoD Financial Management Regulation requirements.

The Corps of Engineers was unable to readily provide supporting documentation for some Air Force obligations and disbursements. We determined that \$641.8 million of the \$661.9 million of unliquidated obligations from FY 1998 through FY 2000 period were supported and valid. The availability of documentation for obligations and disbursements reviewed ranged from 100 percent support for disbursements at the Albuquerque District to 76 percent at the Tulsa District. The Corps of Engineers had approximately 95 percent support for disbursements we reviewed. We also found nothing adverse to indicate that past accounting practices (where support was not provided) differed significantly from those demonstrated to be valid. See Appendix B for details of the support documentation we received.

Summary

Our review of unliquidated obligations from FY 1998 through FY 2000 showed no material misstatements for the transactions tested. We statistically selected and reviewed (\$661.9 million of \$854.6 million) Air Force unliquidated obligations at 12 Corps of Engineers Districts. The policies, procedures, and controls established by DoD, the Air Force, and the Corps of Engineers to manage obligations and disbursements were effective, 96 percent and 95 percent, respectively. However, the Corps of Engineers did not always comply with triannual review documentation requirements, or cite the proper obligation and appropriations associated with Military Interdepartmental Purchase Requests. The Corps of Engineers also did not always consistently apply the supervision and administration rate. The Corps of Engineers could not provide documentation to fully support obligations and disbursements from FY 1991 through FY 1997. Although we found the above minor problems, there was nothing to indicate that the unliquidated obligations were materially misstated in the financial records for the fiscal year ending September 30, 2000.

Recommendations, Management Comments, and Audit Response

We recommend that the Commander and Chief of Engineers, U.S. Army, Corps of Engineers:

a. Ensure that documentation supporting the triannual review process is retained for the required period in accordance with DoD Regulation 7000.14-R, the DoD Financial Management Regulation, volume 3, chapter 8, "Standards for Recording and Reviewing Commitments and Obligations," dated November 2000.

b. Ensure that the Fort Worth and Mobile Districts apply the supervision and administration rate consistent with Corps policy and deobligate the inappropriate obligations in both districts.

c. Require that the New York District determine the correct appropriation to be charged for the \$918,124 and make the appropriate adjustment.

Management Comments. The Commander and Chief of Engineers, U. S. Army Corps of Engineers, concurred with Recommendations a. and b. They will specifically address the triannual review supporting documentation requirement in their FY 2002 Joint Reconciliation Program Guidance to U. S. Army Corps of Engineers Command, which should be issued by October 31, 2001. The Fort Worth District will discontinue obligating supervision and administration for contract contingencies. Supervision and Administration will only be obligated for contractual awards and modifications and inappropriate obligations will be deobligated by December 31, 2001. Future District Joint Unliquidated Obligation Review Guidance will address Military supervision and administration obligations.

The Commander and Chief of Engineers, U. S. Army Corps of Engineers, nonconcurred with Recommendation c., stating that the issue is still being worked on within the chain of command and that DoD, Inspector General involvement may be required before a resolution can be reached.

Audit Response. The Commander and Chief of Engineers, U. S. Army Corps of Engineers, comments were fully responsive to Recommendations a. and b. The comments to Recommendation c. were not responsive. The auditors provided copies of workpapers supporting the \$918,124 invalid charge to the New York District Internal Review Office on July 26, 2001. Management comments provided no additional information; therefore, the recommendation remains unchanged. We request that management respond to Recommendation c. in their comments to the final report.

Appendix A. Audit Process

Scope

Work Performed. We reviewed the validity of unliquidated obligations as of September 30, 2000. To accomplish this, we reviewed guidance requiring or resulting in the recording of obligations and disbursements. We reviewed guidance on the documentation necessary to support the recorded entries. We reviewed the Corps of Engineers obligations and disbursements of Air Force funds from FY 1991 through FY 2000 to determine whether they were properly approved, supported, and valid. We reviewed \$668.6 million of the \$854.6 million reported in FY 2000 unliquidated obligations.

Limitation of Scope. We did not review the management control program for the Corps of Engineers. The Army Audit Agency reviewed the management controls during the audit of the U. S. Army Corps of Engineers financial statements in the audit report, "Fiscal Year 2000 Financial Statements: U. S. Army Corps of Engineers, Civil Works," February 14, 2001.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures.

- **FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-02)**
- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. **(01-DoD-2.5.2.)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

- **Financial Management Area. Objective:** Eliminate problem disbursements. **Goal:** Improve timeliness and accuracy of obligations. (FM-3.3)

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

Use of Computer-Processed Data. We relied on computer processed data extracted from CEFMS to determine labor and in-house costs. Although we did not formally assess the reliability of the computer-processed data, the source documentation obtained agreed with the computer-processed data used in our sample. We did not find errors that would preclude the use of the computer-processed data to meet the audit objective. General Accounting Office, Report No. GAO-AIMD-01-89, "Financial Management: Significant Weaknesses in Corps of Engineers' Computer Controls," September 15, 2000, identified system weaknesses related to:

- access control,
- application software development and control,
- systems software,
- segregation of duties,
- application-input controls, and
- processing controls

Although these weaknesses identified the risk of financial data manipulation, we found no instances of data manipulation.

Universe and Sample. We extracted the universe for this audit from the CEFMS database. The universe contained 2,650 Air Force appropriation allocation codes and related unliquidated obligations distributed to 23 Corps of Engineers districts with a value of \$854.6 million. We selected a total of 295 sample items from 12 of the 23 districts with a value of \$668.6 million.

Statistical Sampling Methodology. A multistage design was used. The first stage consisted of 12 out of 23 locations (based on unliquidated obligation dollar amount) that were selected without replacement using probability proportional to the size sampling methodology. The second stage was stratified into two strata by unliquidated obligation dollar amount. The first stratum consisted of items that were greater than or equal to \$1 million, and the second stratum consisted of items that were less than \$1 million. All unliquidated obligations in the first stratum were selected for review from each of the selected locations. In the

second stratum, we randomly selected 15 unliquidated obligations for review from each of the selected locations. There were 116 unliquidated obligations selected in the first stratum and 179 selected from the second stratum. Those obligations accounted for \$668.6 million out of \$854.6 million total unliquidated obligations.

Statistical Projection. The audit identified misstatements in the Corps of Engineers financial statements that overstated the Air Force unliquidated obligations by approximately \$991,942. All identified misstatements were in the census strata and did not require statistical projection. In addition, we tried to determine the impact on the entire population if all unsupported obligations and disbursements in the sample population were errors. However, we had selected the sample based on unliquidated obligations, not obligations and disbursements. The measure used to analyze the sample was changed after the sample was drawn and the audit was in progress, from unliquidated obligation dollars to cumulative obligation and cumulative payment dollars. The lack of correlation between the original and revised measures; and large variability between and within the locations selected resulted in an inability to statistically project from the sampled data.

Use of Technical Assistance. We obtained technical assistance on the statistical sample from the Quantitative Methods Division of the Audit Followup and Technical Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Audit Type, Dates and Standards. We performed this financial related audit from October 2000 through May 2001 using data from FY 1991 through FY 2000. We did our work in accordance with generally accepted government auditing standards except that we were unable to obtain an opinion on our system of quality control. The most recent external quality control review was withdrawn on March 15, 2001, and we will undergo a new review.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Prior Coverage

Inspector General, DoD, Report No. D-2000-184, "FY 1999 DoD Superfund Financial Transactions," August 31, 2000

Inspector General, DoD, Report No. 99-257, "FY 1998 DoD Superfund Financial Transactions," September 22, 1999

Inspector General, DoD, Report No. 98-200, "FY 1997 DoD Superfund Financial Transactions," September 16, 1998

Inspector General, DoD, Report No. 97-212, "FY 1996 DoD Superfund Financial Transactions," September 4, 1997

Appendix B. Sample Results

Location		3 Years FY 1998 - 2000			Prior Years FY 1991 - 1997		
		Obligation (millions)	Disbursement (millions)	ULO* (millions)	Obligations (millions)	Disbursement (millions)	ULO (millions)
Corps-Total	Sample Value	873.3	211.4	661.9	212.8	206.1	6.7
	Audited Value	842.1	200.3	641.8	157.3	128.0	29.3
	% Supported	96.0%	95.0%		74.0%	62.0%	
Albuquerque	Sample Value	37.5	7.4	30.0	.5	.5	0
	Audited Value	37.3	7.4	29.8	.07	.07	0
	% Supported	99.0%	100.0%		12.0%	12.0%	
Fort Worth	Sample Value	68.4	18.6	49.8	2.6	2.5	.1
	Audited Value	65.0	17.0	47.9	2.5	2.5	.1
	% Supported	95.0%	92.0%		99.0%	100.0%	
Kansas City	Sample Value	50.6	14.0	36.5	28.1	27.7	.4
	Audited Value	50.4	14.0	36.5	9.6	9.1	.5
	% Supported	99.7%	99.3%		34.0%	33.0%	
Korea	Sample Value	63.6	22.4	41.2	11.3	11.3	0
	Audited Value	57.0	21.9	35.1	9.7	9.7	0
	% Supported	90.0%	98.0%		86.0%	86.0%	
Louisville	Sample Value	89.0	23.3	65.7	3.0	3.0	0
	Audited Value	88.0	20.9	67.1	2.8	2.8	0
	% Supported	99.0%	90.0%		93.0%	93.0%	

*Unliquidated Obligations (Differences due to rounding)

Location		3 Years FY 1998 – 2000			Prior Years FY 1991 - 1997		
		Obligation (millions)	Disbursement (millions)	ULO (millions)	Obligation (millions)	Disbursement (millions)	ULO (millions)
Mobile	Sample Value	190.9	41.4	149.5	24.0	22.2	1.8
	Audited Value	182.0	39.8	142.2	9.8	9.3	.5
	% Supported	95.0%	96.0%		41.0%	42.0%	
New York	Sample Value	31.9	7.1	24.8	92.1	88.3	3.8
	Audited Value	31.2	6.9	24.3	79.9	72.6	7.3
	% Supported	98.0%	97.0%		87.0%	82.0%	
Omaha	Sample Value	11.7	13.9	105.8	0	0	0
	Audited Value	118.3	13.9	104.4	0	0	0
	% Supported	99.0%	99.9%		0	0	
Sacramento	Sample Value	21.3	7.5	13.8	1.2	1.1	.1
	Audited Value	20.7	7.5	13.2	1.1	1.1	0
	% Supported	97.0%	99.6%		97.0%	100.0%	
Savannah	Sample Value	66.6	22.5	44.1	27.9	27.6	.3
	Audited Value	66.6	22.3	44.2	21.7	20.3	1.4
	% Supported	99.9%	99.0%		78.0%	74.0%	
Seattle	Sample Value	51.8	14.3	37.5	.5	.5	0
	Audited Value	51.7	14.2	37.5	.5	.5	0
	% Supported	99.9%	99.0%		96.0%	96.0%	
Tulsa	Sample Value	82.1	18.9	63.2	21.7	21.6	.1
	Audited Value	74.0	14.4	59.6	19.6	.1	19.5
	% Supported	90.0%	76.0%		90.0%	0.0%	

Appendix C. Air Force Appropriations to Corps of Engineers

Approp ²	Fund Code	Description	Allot ³ Received (millions)	Oblig ⁴ (millions)	Disburse ⁵ (millions)	ULO ⁶ (millions)
57 3300	25	Military Construction, Air Force	\$6,037.0	\$5,954.9	\$5,241.5	\$713.3
57 3300	XF	Military Construction, Air Force	8.2	8.2	8.2	0
57X3300	XC	Military Construction, Air Force (No Year)	54.6	54.5	54.4	.2
57 3304	3C	Military Construction, Air Force (Special Allot)	2.2	2.2	1.4	.8
57 3730	57	Military Construction, Air Force Reserve	300.4	297.6	237.0	60.5
57 3830	53	Military Construction, Air National Guard	4.1	4.1	4.1	0
57 7040	89	Family Housing Construction, Air Force	406.4	404.1	378.0	26.1
97 0103	20	DoD BRAC ⁷ 88 Account, Part I	425.2	425.1	425.1	0
97 0500	84	Military Construction, DOD	81.6	52.8	19.0	33.8
97X0510	2R	DoD BRAC 91 Account, Part II FY 92 - FY 94	367.3	367.3	367.2	.1
97X0510	5F	DoD BRAC 93 Account, Part III FY 94 Only	32.6	32.6	32.3	.3
97X0510	H7	DoD BRAC 91 Account, Part II FY 96 Only	49.1	49.1	49.0	.1
97X0510	HD	DoD BRAC 93 Account, Part III FY 94 Only	25.1	25.1	25.0	.1
97X0510	HP	DoD BRAC 95 Account, Part IV FY 96 Only	15.9	15.9	15.9	0
97X0510	HY	DoD BRAC 91 Account, Part II FY 95 Only	25.5	25.4	25.1	.3
97X0510	HZ	DoD BRAC 93 Account, Part III FY 95 Only	97.8	97.7	97.1	.6
97X0510	X1	DoD BRAC 91 Account, Part II FY 97 Only	41.7	41.5	41.3	.2
97X0510	X2	DoD BRAC 93 Account, Part III FY 97 Only	32.2	31.9	31.2	.7
97X0510	X3	DoD BRAC 95 Account, Part IV FY 97 Only	71.4	71.3	70.9	.4
97X0510	X8	DoD BRAC 93 Account, Part III FY 98 Only	2.0	2.0	2.0	0
97X0510	XE	DoD BRAC 95 Account, Part IV FY 99 Only	28.6	28.1	15.0	13.1
97X0510	XK	DoD BRAC 95 Account, Part IV FY 98 Only	57.4	57.1	55.0	2.0
97X0510	BP	DoD BRAC 00 Account	4.4	4.2	2.3	1.9
57*8928	75	Air Force Gift Fund	5.4	5.4	5.4	0
		TOTAL	\$8,176.1	*\$8,058.0	\$7,203.4	*\$854.6

*Differences due to rounding

²Appropriation

³Allotment

⁴Obligations

⁵Disbursements

⁶Unliquidated Obligation

⁷Base Realignment and Closure

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Deputy Under Secretary of Defense (Acquisition Reform)

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army
Commander and Chief of Engineers, U.S. Army Corps of Engineers

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organizations and Individuals

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform

U. S. Army Corps of Engineers Comments



DEPARTMENT OF THE ARMY
U.S. Army Corps of Engineers
WASHINGTON, D.C. 20314-1000

REPLY TO
ATTENTION OF:

CBR

10 August 2001

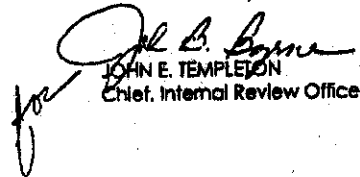
MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE, Attn:
Mr. Paul J. Granetta, Director, Finance and Accounting
Directorate

SUBJECT: Audit of U.S. Army Corps of Engineers Obligations for DOD Component
Contracts (Project No. D2001F-0024) - RESPONSE

1. Attached is the official USACE response to the subject DoD IG report. The New York District has currently taken a nonconcur position on finding c. The issue is still being worked within the chain of command and DoD IG involvement may be required before a resolution can be reached on this finding and recommendation.

2. POC for this matter is John Byrne who can be reached on 202-761-1987.

FOR THE COMMANDER:


JOHN E. TEMPLETON
Chief, Internal Review Office

For the Commander U.S. Army Engineer

Recommendation: We recommend that the Commander and Chief of Engineers, U.S. Army Corps of Engineers:

- a. Ensure that the documentation supporting the triannual review process is retained for the required period in accordance with DoD Regulation 7000.14-R, the DoD Financial Management Regulation, volume 3, chapter 8.

Command Comments: Concur. To ensure full compliance with the regulation we will specifically address the supporting documentation requirement in our FY 02 Joint Reconciliation Program Guidance to USACE Commands which should be issued by 31 October 2001.

- b. Ensure that the Fort Worth and Mobile Districts apply the supervision and administration (S&A) rate consistent with Corps policy and deobligate the inappropriate obligations in both districts

Command Comments: Concur.

The Fort Worth District will discontinue obligating S&A for contract contingencies. Supervision and Administration will only be obligated for contractual awards and modifications. Inappropriate obligations will be de-obligated by 31 December 2001. The Fort Worth District is in compliance with the records retention requirements of DOD Regulation 7000.14-R, the DOD Financial Management Regulation, Volume 3 and the Modern Army Record Keeping System. Records are maintained for the full retention period. Some older files have been relocated to an offsite records holding center to more efficiently utilize office space. Maintenance of older files that are rarely referred to onsite is not cost efficient. These files can be retrieved for review with sufficient advance notification. The Fort Worth District Resource Management Office maintains tri-annual reviews of obligations and commitments for the required 24 month period.

The Mobile District did obligate S&A charges based on contingency amounts for these contracts. Corrections were made to deobligate inappropriate amounts. From this point forward, they will specifically address Military S&A obligation rules in the District's Joint ULO Review guidance. Doing this will ensure that periodic reminders are issued regarding the S&A obligation rules. It will also provide better management control by holding individuals responsible for reviewing and ensuring the accuracy of these obligations.

- c. Require the New York District to determine the correct appropriation to be charged for the \$918,124 and make the appropriate adjustments

Command Comments: Refer to the cover letter for the status of the command position on this issue.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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